STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

AMENDMENT NO. 1

"Actuarial Consulting Services"

Request for Proposals OFM No. 10-1000

OFM RFP No. 10-100 is amended to include opening remarks from the November 12, 2009 pre-proposal conference. The amendment also includes the following bidder questions and answers from the Office of Financial Management.

Opening Remarks from Betty Reed at the November 12, 2009 pre-proposal conference are included in Exhibit C, which is attached hereto and incorporated by reference.

Question 1. Will expenses for automobile liability versus general liability be provided separately?
Answer 1. Yes. The state's claims database has separate codings for general and auto liability and for indemnity and defense cost.

Question 2. Will prior evaluations of the data be provided?
Answer 2. Yes, to the extent they are described in the exhibits included in the prior reports.

Question 3. Have actuarial studies for these agencies been done before?
Answer 3. Yes

Question 4. Who is the incumbent actuary?
Answer 4. Pricewaterhouse Coopers

Question 5. What were the fees for the prior actuarial analysis and what services did they cover?
Answer 5. The fee for the prior two years was $38,588 per year. The fee included an analysis of auto and general liabilities for the SILP and a separate analysis of the Ferries Division within the same report. Premium allocation for the SILP was done in only one year and no claim audit was performed.

Question 6. Will the prior actuarial analysis/final reports be made available?
Answer 6. Yes. There are two final reports available. The most recent study did not allocate premium because OFM charges the same premiums in both years of the biennium. The prior year's study did include the allocation of premium to the various agencies. Both reports are available electronically. In order to receive copies of the reports, bidders must submit a written request to Jan McMullen, RFP Coordinator, at jan.mcmullen@ofm.wa.gov.

Question 7. Is the analysis for the Ferries Division completed on a biennial basis?
Answer 7. Yes. This analysis is done in conjunction with the state analysis.

Question 8. How many agencies are in SILP?
Answer 8. Approximately 124 state agencies, boards and commissions as well as 36 community colleges and baccalaureate institutions participate in the SILP. However, 74 are charged a minimum premium because of their no loss history and a very high percentage of total premium is charged to the largest 10 agencies**.**

Question 9. When allocating, is it correct to assume that OFM projects the liability going forward for five years?
Answer 9. No. Allocation of premium currently considers losses with either report dates or occurrence dates during the previous five years. When projecting liabilities, the contractor is expected to estimate total outstanding losses as of the end of the next fiscal year (6/30/2010) and for the next five fiscal years going forward.

Question 10. Assuming the study as of 6/30/2010 comes up with all the liabilities as of 6/30/2010 and prior and projects for the next five years, does the study also need to account for the new losses that are rolling into the program?
Answer 10. Yes. OFM understands the forecasts for years beyond the date of the study tend to be mathematical in nature.

Question 11. Some agencies in other states are bigger in size than others. Does OFM want the actuary to perform a credibility rating based on the overall experience?
Answer 11. The difference in agency sizes is true for Washington as well. The four largest agencies account for 85% - 90% of the liability. For premium allocation purposes, the state does not use credibility factors for the various agencies. Use of credibility ratings when estimating total outstanding liabilities is a professional decision made by the consulting actuary.

Question 12. Does OFM want the actuary to provide the liability on an unlimited basis as if there is no re-insurance?
Answer 12. No. OFM wants the actuary to provide an estimate of total outstanding liability as if the state has a limit of $10 million since that is the per occurrence limit of the SILP.

Question 13. Does OFM want an estimate of how much would be in the $40 million - $10 million figure?
Answer 13. No. The state wants an estimate of the likely recovery from various levels of excess insurance over the claims reported years.

Question 14. Does OFM want the actuary to come up with the excess layer?
Answer 14. No.

Question 15. The Request for Proposal includes a sample contract with general terms and conditions. Can those terms and conditions be negotiated? If yes, should the bidder list the terms and conditions, which it would want to negotiate, in its proposal?

Answer 15. When submitting a proposal a bidder should list the terms and conditions that it would like to negotiate and also include the language that the bidder prefers. While the terms and conditions included by OFM in the RFP are negotiable, OFM is not required to accept a bidder's proposed changes. If a bidder is selected as the Apparently Successful Contractor and the terms cannot be negotiated, OFM reserves the right to enter into negotiations with the second highest-scoring bidder. See RFP Section 2.11

ALL OTHER TERMS AND CONDITIONS OF OFM RFP NO. 10-1000 REMAIN IN FULL FORCE AND EFFECT.

EXHIBIT C

Opening Remarks from Betty Reed at the November 12, 2009 pre-proposal conference

The Office of Financial Management requires an actuarial study to account for and fund its self-insurance liability program (SILP). The SILP began in 1991 and the state self insures for the first $10 million with no deductible for general and auto liability for all state agencies with the exception of the University of Washington and the Ferries Division of the Washington State Department of Transportation which operates the Washington State ferry system.

The actuarial study being sought by OFM will give an estimate of outstanding liabilities including Incurred But Not Reported (IBNR) for the SILP at expected and at two other confidence levels that OFM will select. OFM requires the outstanding liabilities as of the end of the fiscal year, which is June 30th of a given year. The study will also need to project the same outstanding liabilities for the next successive five years. The report will be required to segregate auto liability from general liability and also separate the cost of indemnity from the cost of defense. While the Ferries Division does not participate in the SILP, OFM does require the actuary to estimate liabilities and expected indemnity and defense payouts of the Ferries Division in the actuarial report.

Unlike most insurance, the state uses cost of defense rather than “loss adjustment expenses” because OFM has adjusters within its Risk Management Division that are not funded from the SILP. OFM uses the cost of defense as defined by the cost that OFM pays to the Office of the Attorney General.

Washington does have an excess insurance policy to protect the SILP. For most agencies that is a claims excess of $10 million per incident and up to $40 million on an annual level. OFM is asking the actuary to estimate the estimated potential recovery from that insurance policy and show it as a reduction of outstanding liabilities. In addition, OFM asks the actuary to project payment streams…payments that the actuary anticipates the state will make in the next fiscal period and for the next five years. The projected payments should also be based on the same categories although the actuary can lump the auto and general liability into one category. OFM wants to know what the actuary thinks the proposed payments will be for each of the defense, liability, and ferries system as separate items.

The estimate of outstanding liabilities and projected payments should be made on a discounted and undiscounted basis. Washington does not now accrue interest income to the SILP due to statutory provisions, but OFM wants a discounted number in the event that situation changes. OFM would supply the actuary with the expected rate of return on assets.

As part of the report the actuary will allocate premium to the agencies using a formula supplied by OFM. The actuary will be required to determine outstanding liabilities and payment streams. With that information OFM will provide the actuary with what the State's projected funding is likely to be. That activity will be based upon the actuary's report, the State's current fund balance, and the State's other financial demands. OFM will give the actuary a number and then ask the actuary to allocate it to the various state agencies based on OFM's allocation formula.

The actuary will perform this work primarily based upon a claims database that Washington State has accurately maintained since 1988. That database segregates claims by type and agency and tracks amounts paid and open reserves.

In addition to the actuarial report, the actuary will be expected to complete a biennial claims audit. The claims audit would be an audit of the state's claims management practices and its reserving practices to make a determination about the viability and accuracy of the state's reserves for actuarial purposes and appropriateness of its claims handling practices.

The actuarial study will be used to allocate premium to the various agencies. It will be used to make funding decisions about how much overall funding the state should have and be used to record the state's outstanding liabilities and report unfunded liabilities in its consolidated financial reports.

Unlike prior years, this year OFM requires that the actuary provide a report every other year on even years. That report will then be used for recording the financial status of the SILP and also be used to establish premium for agencies. The process is expected to start on January 25, 2010. A near final draft of the report will be due in late March/early April 2010.

The actuary may also be asked from time to time to assist and advise OFM on what types of coverages OFM should be self-insuring vs. commercial insuring and issues involving the premium allocation formulas.

OFM requires the actuary to be available to meet with OFM for planning purposes before the study is started. OFM also requires the actuary to meet with OFM when the report is in its final draft form. After the report is final, the actuary will also be required to meet with OFM, stakeholders, state auditors, and other interested parties to explain the report.